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FISCAL IMPACT STATEMENT

LS 6601 | **NOTE PREPARED:** Jan 13, 2004
BILL NUMBER: HB 1006 | **BILL AMENDED:**

SUBJECT: Property Tax Deduction Increases.

FIRST AUTHOR: Rep. Welch | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

STATE IMPACT	FY 2004	FY 2005	FY 2006
State Revenues	(18,000)	(36,000)	(36,000)
State Expenditures	(4,500,000)	(10,000,000)	(3,000,000)
Net Increase (Decrease)	4,482,000	9,964,000	2,964,000

LOCAL IMPACT	CY 2004	CY 2005	CY 2006
Local Revenues	(38,800,000)		
Local Expenditures			
Net Increase (Decrease)	(38,800,000)		

Summary of Legislation: This bill increases the deduction amount for the following: (1) elderly deduction; (2) blind or disabled deduction; (3) 10% disabled veteran's deduction; (4) 100% disabled veteran's deduction; (5) WWI surviving spouse deduction; (6) WWI veteran's deduction; (7) one- and two-family dwelling rehabilitation deduction; (8) 50-year-old home rehabilitation deduction; and (9) residentially distressed area deduction.

Effective Date: Upon passage.

<u>Explanation of State Expenditures:</u> (Revised) This bill would reduce state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits by an estimated **$4.5 M in FY 2004, $10.0 M in FY 2005, and $3.0 M each year thereafter.** These amounts are composed of the following.

The increased deductions in this proposal would cause a reduction in homesteaders' property tax bills which would result in a savings of homestead credit expenditures. The savings are estimated at $1.1 M in FY 2004, $3.0 M in FY 2005, and $2.4 M in all other years.

The increased deductions would cause a reduction in collected property taxes in CY 2004 and would also cause part of homeowners' tax burdens to be shifted to business personal property beginning in CY 2005. The state pays the 60% school general fund PTRC on all property, however, business personal property does not qualify for the regular 20% PTRC. The state's expense for all PTRC in CY 2004 and the 20% regular PTRC beginning in CY 2005 would be reduced by an estimated $3.4 M in FY 2004, $7.0 M in FY 2005, and $550,000 in all other years.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF), which is annually supplemented by the state General Fund. Any savings of expenditures for these credits would ultimately benefit the state General Fund.

<u>Explanation of State Revenues:</u> (Revised) The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The total revenue reduction under this proposal is estimated at $18,000 in FY 2004 and $36,000 each year thereafter.

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u> (Revised) Under current law, the property tax deductions for the elderly, blind/disabled, and 100% disabled veterans are equal to $6,000 AV. The elderly deduction is further limited to ½ of assessed value. The WWI veterans and their surviving spouse deductions are currently set at $9,000 AV. The wartime service-connected disabled veterans' deduction equals $12,000 AV, and the 100% disabled veteran deduction equals $6,000 AV. This bill would increase all of these deductions by 108%.

For taxes paid in 2002, the statewide total of all of these deductions was $1.219 B AV. The higher deduction amounts and higher qualifying income for the elderly deduction would result in additional deductions estimated at $1.5 B AV.

In CY 2004, the increased deductions will create a revenue loss for local units of government. IC 6-1.1-17-16 directs the DLGF to certify property tax rates, levies, and budgets by no later than February 15th each year. If the effective date of this bill occurs after February 15, 2004, it would be too late to recalculate 2004 tax rates based on the additional deductions in Pay 2004. This would cause a revenue loss for local civil units and school corporations in CY 2004. Assuming all counties' 2004 tax rates are set by the statutory date, the statewide revenue loss is estimated to be about $38.8 M in CY 2004 only. School corporations may appeal for a shortfall levy in their general and transportation operating funds under IC 6-1.1-19-4.7. Civil units may not appeal for a shortfall levy for this purpose.

In CY 2005 and later, this proposal would cause a shift of part of the property tax burden from homeowners to all property owners in the form of a higher tax rate. A portion of the shift, as much as 30%, would fall back onto homesteaders as they too would pay the higher tax rate. **The net tax shift from these additional deductions is estimated at about $20.9 M in CY 2005 and $20.3 M per year thereafter.** Beginning in CY

2005, total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

The following table summarizes the changes in AV deducted for the above deductions.

Deduction Type	2002 Deduction	Estimated 2004 Deduction	Increase
Elderly	611.6 M	1,461.8 M	139%
Blind or Disabled	199.2 M	414.2 M	108%
Veterans (Combined)	407.9 M	848.5 M	108%
Total	**$1,218.7 M**	**$2,724.5 M**	**124%**

The bill also makes changes to the rehabilitated property deductions. The residential property rehabilitation deduction for one- and two-family homes currently equals up to $9,000 AV per unit for five years. This deduction may be claimed for five years. The maximum deduction would increase to $18,720 per unit under this bill. In addition, under current law, the deduction only applies if the total assessed value prior to rehabilitation did not exceed $18,000 AV for a single-unit home or $24,000 for a two-family home. These AV caps would also be increased by 108%.

The historic property rehabilitation deduction for structures at least 50 years old currently equals up to $60,000 AV for single-family dwellings and up to $300,000 AV for any other type of property. This deduction may be claimed for five years. This bill would increase the maximum deduction for single-family dwellings to $124,800. The maximum deduction for other types of property would remain at $300,000.

The deduction for rehabilitated property in a residentially distressed area currently equals up to $96,000 AV, depending on whether the property contains one, two, three, or four units. This bill would increase each of the caps by 108% up to $199,680 AV for four-family dwellings.

The value of these rehabilitation deductions is commingled with real property abatements on the auditor's abstract, making it impossible to quantify the current deductions. The total of all real property abatements plus rehabilitation deductions in 2002 was $2.0 B AV. Real property abatements most likely make up the overwhelming majority of this aggregate number, leaving a smaller amount representing rehabilitation deductions. The increase for these deductions is not considered in the above shift estimates.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local civil taxing units and school corporations; County Auditors.

Information Sources: 2002 and 2003 County Auditors' Abstracts; Local Government Database.

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